

PHILADELPHIA MULTIFAMILY HOUSING HUB NEWS



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Section 202/811 Mixed Financing

On September 13, 2005, a Final Rule was published in the Federal Register, 24 CFR Part 891, Vol. 70, No. 176, permitting nonprofit sponsors to partner with for-profits and utilize low-income housing tax credits and other financing to assisted in the development of Section 202 and 811 housing.



The basic requirements are as follows:

*The sole general partner of the for-profit limited partnership must be an eligible nonprofit entity.

*The Section 202/811 nonprofit sponsor must establish the nonprofit general partner.

*LLCs are not permitted.

*The project must remain affordable to very low income persons for 40 yrs. and must not have fewer units under the mixed finance approach than it would without mixed finance.

*The developer fee will be tied to the amount allowed by the state tax credit agency, not to exceed 15%. It will be paid from project sources other than capital advances, PRAC, or tenant rents.

*PRAC may only be used for rental assistance on the 202/811 units and not for debt service. Eligible operating costs may be paid from PRAC on a pro-rata basis, based on the ratio of 202/811 units to the total units in the project.

*The use of PRAC funds is prohibited for cash flow distribution or for the creation of reserves for the non-Section 202/811 units.

*Replacement and operating reserves are required, but the operating reserve account is limited to sufficient funds to cover a minimum of 3-months of operating expenses. Project income and tax credit equity may be used to fund the operating reserve account.

*Eligible uses of the project's replacement reserves is defined and includes reducing the number of units in the project in order to retrofit.

*Replacement reserves can be used on a "pro-rata basis" based on the percentage of Section 202/811 units for repairs to common elements in the building.

*Capital advance funds are not permitted to be used to repay bridge loans or construction financing, or to collateralize tax-exempt bonds.

*Equity from tax credits may be used to provide additional units, gap financing, or a mix of additional units and financing if the number of assisted units is consistent with the capital advance.

*Draw downs of capital advance funds must be in a one-to-one ratio for eligible costs actually incurred. HUD may, however, permit on a case-by-case basis a deviation from such drawdown requirements in order to insure project success.

A copy of the Final Rule can be downloaded from the following website:

<http://www.gpoaccess.gov/fr/index.html>.

Previous Participation– APPS

Effective October 13, 2005, all applications for previous participation clearance must be made, electronically, in APPS, on line. MAP & TAP processing guidelines have been revised to eliminate the paper Form HUD-2530 as an exhibit with a mortgage insurance application. Hubs/ Program Centers will conduct the normal completeness check of an application package and assign a case number in DAP. Once the lender has received an assigned case number, the principals can then enter the specific information in APPS. The APPS system will be checked, within 10 working days, to see if the 2530 for the specific case is in the system. If it is not, the case will be returned to the lender. These changes will be incorporated into the MAP Guide and Handbook 4425.1.

Senior Concerts



The Camden County Cultural and Heritage Commission, in an effort to comfort isolated senior citizens, is offering private concerts to bring the arts to homebound and assisted living residents in South Jersey.

The Musical Interludes Program originally began

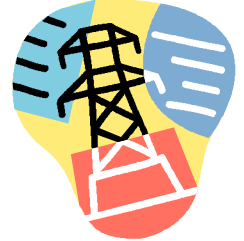
in 1986 to service hospice patients. The program now has 36 paid musicians who make 500 visits to 5,000 seniors each year. The concerts are free for individuals (i.e., private homes) and \$50 for long-term care facilities, assisted living facilities, and Section 202 subsidized housing complexes. It is funded by the New Jersey State Council on the Arts, the Camden County freeholders, Whole Foods and Subaru.

Edith Silberstein, the former chairwoman of the Cultural and Heritage Commission, in speaking about the success of the program remarked, "To have a concert in your own home- it's kind of a special something. You have no idea what it does to have someone cut off from the world and to have the world come back in (with the concerts) and bring memories...It's phenomenally rewarding, and you see the change in their eyes."

For information, or to schedule a Musical Interludes program, call Judi Ingis at: (856) 858-0040.

Combined Heat & Power Guides

HUD's Energy website now contains two new guides concerning cogeneration- combined heat and power (CHP) in multifamily housing.



The guides were produced as part of the implementation by HUD and DOE of the HUD Energy Action Plan. Initiative Number 20 in that Plan commits HUD to promote the use of combined heat and power in housing and community development.

CHP can significantly reduce a building's annual energy costs. Instead of buying all of the building's electricity from a utility and separately purchasing fuel for its heating (mechanical) equipment, most- or even all- of the electricity and heat can be produced for less money by a small on-site power plant operating at a higher combined efficiency.

The type of CHP system commonly applied to multifamily housing uses a device that contains an engine, similar to that found in a car, or a micro-turbine, that drives a generator to produce electricity. The heat (thermal energy) produced by this process is recovered and used to produce hot water or steam, operate a chiller, or serve as a desiccant instead of being exhausted from the engine and transferred through the engine radiator (as in a car).

Guide #1: "Q&A on Combined Heat and Power," addresses the questions typically asked by those exposed to CHP for the first time.

Guide #2: "Feasibility Screening for Combined Heat and Power," explains use of the computer software developed by the Oak Ridge National Laboratory. If you insert utility cost and rate information for the past twelve months, the Guide will roughly calculate the return on investment from installing combined heat and power. That computer software will soon be put up on the Oak Ridge National Laboratory web site and linked to HUD public and assisted housing, FHA multifamily mortgage insurance and CPD web sites.

The guides can be downloaded at: www.hud.gov/offices/cpd/energyenviron/energy/index.cfm under "What's New."

Housing Rehabilitation

The rehabilitation of the country's aging housing stock is a major resource for meeting the nation's affordable housing needs. Large numbers of communities recognize this and use HUD, as well as other public and private resources, to address their affordable housing needs. These communities do this because of the demonstrated economic and social benefits of rehabilitation. Despite the demonstrated benefits of rehabilitation, there is potential for even greater use of existing stock, not only to address affordable housing needs, but also to promote broader community revitalization goals. However, there has been a lack of in-depth research on the factors that act as barriers to rehabilitation of affordable housing. Gaining a sound understanding of the issue is difficult because barriers vary from project to project and from community to community.



To address these concerns, HUD entered into a cooperative agreement with the National Trust for Historic Preservation to examine the major barriers to urban rehabilitation. The project's research team reviewed relevant literature, conducted case studies, and convened study groups of highly-qualified real estate developers, nonprofit leaders, architects and other professionals who face barriers to affordable housing rehabilitation in their "real world" experiences.

The results of these studies can be found at: www.huduser.org/publications/destech/brah.html.

PA Affordable Apt. Locator

The Pennsylvania Housing Finance Agency (PHFA) has developed the Pennsylvania Affordable Apartment Locator (PAL)- a free service to help consumers search for affordable apartments in PA. Users can search for apartments by city, county, or zip code. PAL will also provide information about vacancies, available bedroom sizes, rents, subsidized units, building types, accessibility, amenities, and contact information.



The PAL website is as follows: www.pfha.org/pal.

Cheaper, Faster Loans

In the October 2005 issue of Affordable Housing Finance, FHA was praised for continuing to make a big push into multifamily housing, especially affordable housing."



The article specifically cited the following recent changes that have been made to speed up underwriting and lower the cost of loans:

- *Developers seeking new construction loans can go directly to a MAP lender for a firm commitment.

- *The mortgage insurance premium rate for 13 FHA loan programs has been lowered to 45 basis points where projects are financed with low income housing tax credit equity.

- *FHA has reduced its holdback for Section 223(f) light rehabilitation projects, from 150% to 125% of repair costs.

New Fair Market Rents

The Fair Market Rents (FMR) for fiscal year 2006, were released on October 1, 2005. FMRs serve as the basis for the payment standards used to calculate subsidies under the Housing Choice Voucher program, to determine initial renewal rents for expiring project-based Section 8 contracts, to determine initial rents for housing assistance payment (HAP) contracts in the Moderate Rehabilitation Single Room Occupancy program, and to serve as a rent ceiling in the HOME rental assistance program. The notice provides final FY2006 FMRs for all areas that reflect the estimated 40th and 50th percentile rent levels trended to April 1, 2006.



The new FMRs are available as a free download at <http://www.huduser.org/datasets/fmr.html>.

RHIIP Q & A

The **Final Multifamily Mailbox Summary of questions** can be found on the RHIIP website at: www.hud.gov/offices/hsg/mfh/rhiip/4350_faqs.pdf.

Best Practices



Every quarter, *Philadelphia Multifamily Hub News* will focus on "best practices" or success stories involving HUD projects. In this inaugural article, we will report on an initiative that Corcoran Jennison Management Company/NHP Foundation has taken with four of its properties in PA and NJ.

As you know, HUD has developed a Department-wide Energy Action Plan in support of President Bush's National Energy Policy. The success of this effort will have a great impact on HUD which spends \$4 billion each year on utility allowances, housing assistance payments, and operating grants. Reducing HUD's energy bills by just 5% could yield a savings of \$2 billion over the next 10 years.

Recognizing this fact, Corcoran Jennison Management has been evaluating its projects and implementing energy saving ideas. One such project is Foxwood Manor, a 304-unit Section 236 project located in Levittown, PA., that was built in 1972.

Over the past several years, the following practical energy saving devices have been installed on this 35 year-old project: energy efficient windows, 40 gallon energy efficient hot water heaters, water saver showerheads, water saver toilets, timers on exterior lights, and entry door weatherstripping. In addition, plans are underway to upgrade the heaters and air conditioners with energy efficient models.

HUD encourages project owners and management agents to become proactive, like Corcoran Jennison Management, and join its effort to conserve energy.

Closings

The following projects closed during the month of November: *PA*— Caribe Towers; Ken-Crest; LGAR Health & Rehab.; Bedcliff Apts.; Central Hill Apts.; *NJ*— Cedar Hill Health Care; Milford Manor Nursing; Elm Court; *DE*— Quaker Hill; and *WV*— Potomac Village; Calhoun Homes.

U.S. Housing Market Conditions Report

HUD has released the housing market report for the 2nd quarter of 2005. This issue of "U.S. Housing Market Conditions" features discussions about building with new technologies, the status of selected regional housing markets, and



in-depth housing market profiles for such areas as Washington, DC-MD-VA-WV.

The housing sector continued to be a major contributor to the U.S. economy during the second quarter of 2005.

*Permits were issued for 390,000 new multifamily housing units- down 1.5% from the 1st quarter of 2005 but up 8.9% from the 2nd quarter of 2004.

*Multifamily housing starts equaled 301,000 units in the 2nd quarter of 2005- down 8.7% from the 1st quarter of 2005, but up 5.9% from the 2nd quarter of 2004.

*Completions of multifamily housing units totaled 287,000 units in the 2nd quarter- up 15.9% from the 1st quarter of 2005, but down 10.3% from the 2nd quarter of 2004.

*The rental vacancy rate was 9.8% in the 2nd quarter- down 0.3% from the first quarter of 2005 and down 0.4% from the 2nd quarter of 2004.

*Market absorption of new rental apartments declined slightly with 61% of new apartments completed in the 1st quarter 2005 being leased or absorbed in the second 3 months following completion. This rate is down 1% from the 1st quarter but unchanged from the 2nd quarter of 2004.

*The median rent for the 2nd quarter 2005 was \$932.

In the *Philadelphia* metropolitan area, the vacancy rate has risen from 7 to 10% between June 2004-June 2005. In the NJ counties, the current rate of 2.5% is half the rate from a year ago. Vacancy rates in the PA suburbs rose from 8% to almost 12% during the 12 mo. period. The market is expected to become more balanced because the pipeline of new units has decreased to fewer than 2,300 units. In Center City Philadelphia, the vacancy rate as of June 2005 is more than double the 6% reported in June 2004 due to an estimated 500 new units in lease up. The number of new units planned for construction during the next 3 years has declined to 800, due to the softer rental market conditions and demand for condominiums.

The *Washington* metropolitan area, consisting of DC and the 22 neighboring counties in MD, VA, and WV continues to be one of the strongest housing markets in the nation. The rental market is considered to be strong with low vacancy rates and relatively fast absorption of new apartments.

The complete 88-page report is available online at: www.huduser.org/periodicals/ushmc/summer05/USHMC_05Q2.pdf. Printed copies are also available from HUD USER by calling 1-800-245-2691.